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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 001791

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E.O. 12958: DECL: 07/13/2019

TAGS: ELAB ECON EIND PGOV SOCI RS

SUBJECT: UNEMPLOYMENT FALLS, WAGE ARREARS & REDUCED HOURS
RISE

REF: A. MOSCOW#538
1B. MOSCOW#1562

Classified By: DeputyEcon John Stepanchuk, Reasons 1.4 (b,d)

SUMMARY

11. (C) According to GOR data released last week, actual unemployment in Russia fell to 8.5 percent, or 6.5 million workers, in May. Employment was also down 1.9 percent, or 2.1 million workers, from May 2008. Experts predicted that the employment decline would continue because workers leaving the formal labor market for the summer would again join the job search in the fall. A recent newspaper report claiming the GOR had decided to reduce the frequency of its unemployment reporting incited debate over possible concealment of the real condition of the Russian labor market as well as the accuracy of GOR statistics. Academic and ILO experts asserted that the monthly unemployment estimates were useless guesses and agreed that the GOR should only publish data based on quarterly surveys. Owing to financial and government pressure, employers often withheld salaries or reduced work schedules, keeping workers technically employed. Employees acquiesced to the situation in the hope of improved wages after the crisis. As a result, experts emphasized the importance of wages as a more accurate indicator of labor market conditions. End summary.

UNEMPLOYMENT & EMPLOYMENT BOTH DOWN

12. (SBU) The latest GOR employment statistics appeared to offer a glimmer of hope for the recovery of the Russian labor market. The government statistics service (Rosstat) reported last week that actual unemployment fell to 8.5 percent, or 6.5 million workers, in May, one percent lower than in February of this year, but still 3.1 percent higher than in May 2008. Regional unemployment rates ranged from 3.4 percent in Moscow to 50.3 in the Republic of Ingushetia. Rosstat attributed the 600,000-worker drop in unemployment to seasonal factors. The Ministry of Public Health and Social Development (MHD) also announced that registered unemployment continued its gradual decline, dropping to just over 2.2 million at the beginning of June.

13. (SBU) Experts contended that the drop in unemployment would be temporary, while the decline in employment could continue in the long-term. Rosstat's May employment survey revealed that employment had fallen 1.9 percent, or 2.1 million workers, compared to May 2008. Vladimir Gimpelson,

Director of the Center for Labor Research at the Higher School of Economics, told "Vedomosti" last week that employment would continue to fall, even if production resurged, because employers were attempting to minimize the financial risks involved in maintaining a large workforce. Gimpelson warned that this trend could continue into the long-term. Tatiana Maleva, Director of the Independent Institute for Social Policy, told the newspaper that workers' decisions to transition to the informal sector or leave the labor market contributed to the decrease in unemployment but obviously did not constitute a positive increase in employment. Maleva asserted that these were only temporary decisions taken by workers during the summer when seasonal agriculture work would be available and that unemployment would start to grow again in the fall.

EXPERTS DOUBT MONTHLY ESTIMATES, TRUST QUARTERLY SURVEYS

¶4. (SBU) Rosstat's recently reported plan to switch from monthly to quarterly publication of employment statistics sparked intense speculation regarding the accuracy of its monthly figures and the GOR's motives for releasing data less frequently. In April, &Kommersant8 reported that an anonymous Rosstat representative said that the organization would no longer release monthly estimates of actual unemployment, commenting that forecasting during the crisis had become an "unwelcome pursuit." Other media sources reported that Rosstat officials would neither confirm nor deny the statement. Vladimir Sokolin, Rosstat Head, told reporters in June that an "annoying blunder" by one of his

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staff who titled the April report "first quarter" instead of "January, February, March" caused the confusion. Sokolin said that Rosstat had absolutely not decided to reduce the frequency of its reporting, citing the fact that it continued to release its monthly estimates in May. In addition, he announced that, while full unemployment surveys according to ILO standards currently took place quarterly in February, May, August, and November, Rosstat planned to switch to monthly surveys this fall.

¶5. (C) Experts questioned the accuracy of Rosstat's monthly estimates and supported the idea of only releasing data based on actual surveys. In May, Yevgeniy Gontmakher, head of the Social Policy Center of the Russian Academy of Sciences Institute of Economics, commented to "Nezavisimaya Gazeta"8 that practically no one relied on official statistics for serious analysis. Vladimir Gimpelson, Deputy Director of the Higher School of Economics, told us that he also thought Rosstat's monthly estimates were &mechanical guesses8 without a sensible methodology, noting their steady movement in consistent, round numbers. Gimpelson asserted that focusing on the reliable quarterly data based on surveys would be a good decision. He also supported Rosstat's plan to initiate monthly unemployment surveys in the fourth quarter of 2009.

¶6. (C) An ILO representative concurred that Rosstat's monthly estimates were of little value, although its quarterly surveys offered a reliable picture of unemployment in Russia. Mariko Ouchi, ILO Subregional Office for Eastern Europe and Central Asia Specialist, told us that Rosstat was simply guessing when it put out monthly actual unemployment figures. However, she contended that the quarterly field surveys were dependable.

"HIDDEN" UNEMPLOYMENT LEAVES INCOME AS THE TRUE INDICATOR

¶7. (SBU) Employers' anti-crisis measures contribute to the concealment of the impact of the crisis on the labor market. Retaining workers on part-time schedules or without pay

enable employers to avoid the expense of separation packages, which usually amount to three months' salary (see reftel A). Maksim Perov, 2K Audit) Legal Consultation Company partner, told "Nezavisimaya Gazeta8 that declining unemployment was also a result of government pressure on employers to retain workers. Russian companies are more likely to reduce hours and withhold wages than terminate employees in order to keep them technically employed. For example, Boris Aleshin, AvtoVAZ President, recently informed union leaders that the company was considering the implementation of a 20-hour workweek from September 2009 through February 2010 in response to negative projections for auto sales this year. Although avoiding mass terminations, the plan would reduce employee's wages to 50 percent of their pre-crisis levels.

¶8. (C) Russian workers often tolerate reduced hours and salaries in the hope that at some point in the future when the economy recovers, their wages will improve (see reftel B). In addition, workers frequently receive supplemental benefits in connection with their employment through their local union, including access to sanatoria, health centers, and camps for children.

¶9. (SBU) Experts point to wages as a more accurate indicator of the impact of the financial crisis on the labor market (see reftel A). Russian workers continue to suffer from rising wage arrears and reduced work schedules. According to Rosstat, unpaid salaries climbed 10.8 percent, or 853 million rubles, in May, totaling over 8.7 billion rubles. (Note: Rosstat measurements of wage arrears only include information on large and medium companies, not SMEs. End Note) Wage arrears in the manufacturing sector constitute over 50 percent of the nationwide total. In addition, the number of workers reported by the MHD on administrative leave, idle time, or less than full-time schedules continued to rise at approximately the same rate that registered unemployment declined. As of June 15, over 1.6 million workers found themselves in one or the other of those categories, an increase of more than one million workers since late January. Overall, real incomes at the end of May were 1.3 percent lower than in May 2008 according to Rosstat.

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COMMENT

¶10. (C) Positive labor market trends in terms of employment are curious given the state of the rest of the Russian economy. According to Rosstat and MHD data, the unemployment situation is improving while industrial output, retail sales, and GDP continue to decline. In the absence of significant improvement in the rest of the Russian economy, the current positive unemployment trend is unlikely to continue after the seasonal factors driving it end this fall. Other labor market indicators such as wage arrears and reduced hours provide a more complete picture of the actual labor situation. End Comment.

BEYRLE